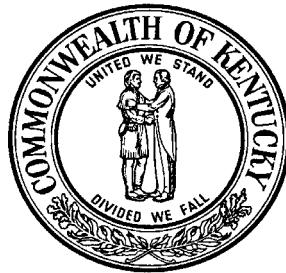


**REPORT OF THE AUDIT OF THE
BATH COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BATH COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Bath County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$376,178 from the beginning of the year, resulting in a cash surplus of \$445,581 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$180,000. Future collections of \$169,046 are needed over the next six years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$157,423 as of June 30, 2003. Future principal and interest payments of \$171,394 are needed to meet these obligations.

Report Comments:

- The Fiscal Court Should Adopt A Written Investment Policy
- Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Walter B. Shrout, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Bath County, Kentucky, as of June 30, 2003, and the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types for the year then ended. These financial statements are the responsibility of the Bath County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Bath County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Bath County, Kentucky, as of June 30, 2003, and its receipts and disbursements for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Walter B. ShROUT, Bath County Judge/Executive
Members of the Bath County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2004, on our consideration of Bath County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Bath County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Adopt A Written Investment Policy
- Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 28, 2004

BATH COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Walter B. Shrout	County Judge/Executive
Jimmy Cline	Commissioner
Billy Martin	Commissioner
E. H. Snedegar	Commissioner

Other Elected Officials:

Kim Hunt Price	County Attorney
Palmer Crouch	Jailer
Glen Thomas	County Clerk
Nancy Crouch	Circuit Court Clerk
Randall Armitage	Sheriff
Paul Goodpaster	Property Valuation Administrator
Robert Powell	Coroner

Appointed Personnel:

Douglas Copher	County Treasurer
----------------	------------------

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

BATH COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>			<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 388,926	\$ 5,665	\$ 51,364	\$ 445,955
Total Assets	<u>\$ 388,926</u>	<u>\$ 5,665</u>	<u>\$ 51,364</u>	<u>\$ 445,955</u>
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Bond Payments	\$	\$	\$ 136,196	\$ 136,196
Capital Leases	<u>157,423</u>			<u>157,423</u>
Total Other Resources	<u>\$ 157,423</u>	<u>\$ 0</u>	<u>\$ 136,196</u>	<u>\$ 293,619</u>
Total Assets and Other Resources	<u><u>\$ 546,349</u></u>	<u><u>\$ 5,665</u></u>	<u><u>\$ 187,560</u></u>	<u><u>\$ 739,574</u></u>

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bonds:				
Courthouse Renovation (Note 4)	\$	\$	\$ 180,000	\$ 180,000
Capital Leases:				
Voting Machines (Note 5A)	21,615			21,615
Vehicles (Note 5B)	8,000			8,000
Grader (Note 5C)	127,808			127,808
Payroll Revolving	374			374
Total Liabilities	<u>\$ 157,797</u>	<u>\$ 0</u>	<u>\$ 180,000</u>	<u>\$ 337,797</u>
<u>Equity</u>				
Fund Balances:				
Unreserved	<u>\$ 388,552</u>	<u>\$ 5,665</u>	<u>\$ 7,560</u>	<u>\$ 401,777</u>
Total Equity	<u>\$ 388,552</u>	<u>\$ 5,665</u>	<u>\$ 7,560</u>	<u>\$ 401,777</u>
Total Liabilities and Equity	<u><u>\$ 546,349</u></u>	<u><u>\$ 5,665</u></u>	<u><u>\$ 187,560</u></u>	<u><u>\$ 739,574</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES -
GOVERNMENTAL FUND TYPES

BATH COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES -
GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 598,901	\$ 1,331,535	\$ 47,427	\$ 32,002
Other Financing Sources:				
Transfers In	125,565		160,000	
Total Cash Receipts	<u>\$ 724,466</u>	<u>\$ 1,331,535</u>	<u>\$ 207,427</u>	<u>\$ 32,002</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 700,626	\$ 1,413,322	\$ 202,563	\$ 47,362
Other Financing Uses:				
Transfers Out	165,000	125,565		
Capital Leases - Principal	11,443			
Bonds:				
Principal Paid				
Interest Paid				
Total Cash Disbursements	<u>\$ 877,069</u>	<u>\$ 1,538,887</u>	<u>\$ 202,563</u>	<u>\$ 47,362</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (152,603)	\$ (207,352)	\$ 4,864	\$ (15,360)
Cash Balance - July 1, 2002	<u>303,315</u>	<u>432,385</u>	<u>196</u>	<u>23,107</u>
Cash Balance - June 30, 2003	<u><u>\$ 150,712</u></u>	<u><u>\$ 225,033</u></u>	<u><u>\$ 5,060</u></u>	<u><u>\$ 7,747</u></u>

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES -
 GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Special Revenue Fund Type			Debt Service Fund Type			
911 Fund	Scattered Site Homebuyer Fund	Forest Fire Protection Fund	Building Commission Fund	Depreciation Reserve Fund	Totals (Memorandum Only)	
\$ 106,614	\$ 240,394	\$ 1,176	\$ 65,413	\$ 966	\$ 2,424,428	
5,000			3,000	3,000	296,565	
\$ 111,614	\$ 240,394	\$ 1,176	\$ 68,413	\$ 3,966	\$ 2,720,993	
\$ 110,645	\$ 240,494	\$ 1,176	\$ 42,850	\$	\$ 2,759,038	
			3,000	3,000	296,565	
					11,443	
			25,000		25,000	
			5,125		5,125	
\$ 110,645	\$ 240,494	\$ 1,176	\$ 75,975	\$ 3,000	\$ 3,097,171	
\$ 969	\$ (100)	\$	\$ (7,562)	\$ 966	\$ (376,178)	
4,696	100		15,122	42,838	821,759	
\$ 5,665	\$ 0	\$ 0	\$ 7,560	\$ 43,804	\$ 445,581	

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bath County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Building Commission Fund as part of the reporting entity.

Bath County Building Commission

The Building Commission is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Building Commission's governing body consists entirely of Fiscal Court members. Therefore management must include the Building Commission as a component unit, and the Building Commission's financial activity has been blended with that of the Fiscal Court.

Additional - Bath County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Bath County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Bath County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bath County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Bath County Special Revenue Fund Type includes the following county funds: 911 Fund, Scattered Site Homebuyer Fund, and Forest Fire Protection Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest. The Bath County Debt Service Fund Type includes the following county funds: Building Commission Fund and Depreciation Reserve Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Bath County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Department for Local Government does not require the Building Commission Fund (Debt Service Fund Type) to be budgeted. However, the Bath County Fiscal Court has budgeted this fund to account for bond indentures and other relevant contractual provisions requiring specific payments to and from this fund annually.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. The county considers certificates of deposit with a maturity date of three months or less to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

On January 1, 1981, the Bath County Building Commission issued \$530,000 of revenue bonds for the purpose of courthouse renovation. The bonds require that an annual interest and principal payment be made on January 1 of each year commencing January 1, 1981. The bonds will mature January 1, 2009. As of June 30, 2003, the principal amount outstanding was \$180,000. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 9,000	\$ 26,000
2005	7,700	28,000
2006	6,300	29,000
2007	4,850	31,000
2008	3,300	32,000
2009	1,700	34,000
Totals	<u>\$ 32,850</u>	<u>\$ 180,000</u>

Note 5. Capital Leases

- A. On September 29, 1997, Bath County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase voting machines. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on October 29, 2007. As of June 30, 2003, the principal amount outstanding was \$21,615. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 577	\$ 4,674
2005	435	4,857
2006	290	5,047
2007	138	5,244
2008	11	1,793
Totals	<u>\$ 1,451</u>	<u>\$ 21,615</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

- B. On March 8, 2001, Bath County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase vehicles. The agreement requires 36 monthly payments at 3.27% to be paid in full January 20, 2004. As of June 30, 2003, the principal amount outstanding was \$8,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 199</u>	<u>\$ 8,000</u>

- C. On March 1, 2003, Bath County entered into a lease agreement with the Caterpillar Financial Services Corporation to lease a Caterpillar Motor Grader for \$134,702. The agreement requires 72 monthly payments at a 4% interest rate to be paid in full on February 28, 2009. As of June 30, 2003, the principal amount outstanding was \$127,808. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 4,700	\$ 20,505
2005	3,864	21,341
2006	295	22,210
2007	2,090	23,115
2008	1,148	24,057
2009	<u>224</u>	<u>16,580</u>
Totals	<u>\$ 12,321</u>	<u>\$ 127,808</u>

Note 6. Insurance

For the fiscal year ended June 30, 2003, Bath County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BATH COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 614,919	\$ 598,901	\$ (16,018)
Road and Bridge Fund	1,340,606	1,331,535	(9,071)
Jail Fund	59,066	47,427	(11,639)
Local Government Economic Assistance Fund	35,600	32,002	(3,598)
<u>Special Revenue Fund Type</u>			
911 Fund	101,300	106,614	5,314
Scattered Site Homebuyer Fund	240,394	240,394	
Forest Fire Protection Fund		1,176	1,176
<u>Debt Service Fund Type</u>			
Building Commission Fund	70,500	65,413	(5,087)
Depreciation Reserve Fund	800	966	166
Totals	<u>\$ 2,463,185</u>	<u>\$ 2,424,428</u>	<u>\$ (38,757)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 2,463,185
Add: Budgeted Prior Year Surplus	754,800
Less: Other Financing Uses	<u>(46,693)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,171,292</u>

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SCHEDULE OF OPERATING REVENUE

BATH COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPES</u>				
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 352,897	\$	\$	\$ 352,897
In Lieu Tax Payments	18,162			18,162
Excess Fees	45,019			45,019
Licenses and Permits	44,463			44,463
Intergovernmental Revenues	1,464,752	241,570	65,082	1,771,404
Charges for Services	18,806			18,806
Miscellaneous Revenues	47,220	106,439		153,659
Interest Earned	18,546	175	1,297	20,018
Total Operating Revenue	<u>\$ 2,009,865</u>	<u>\$ 348,184</u>	<u>\$ 66,379</u>	<u>\$ 2,424,428</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BATH COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 315,099	\$ 302,110	\$ 12,989
Protection to Persons and Property	320,338	241,501	78,837
General Health and Sanitation	190,778	151,040	39,738
Social Services	12,957	13,257	(300)
Recreation and Culture	30,796	28,861	1,935
Roads	1,539,590	1,333,752	205,838
Bus Services	9,725	9,710	15
Debt Service	1,481	862	619
Administration	299,807	282,780	17,027
Total Operating Budget - General Fund Type	\$ 2,720,571	\$ 2,363,873	\$ 356,698
Other Financing Uses:			
Capital Lease Agreements-			
Principal on Leases	11,443	11,443	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,732,014</u>	<u>\$ 2,375,316</u>	<u>\$ 356,698</u>

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 105,967	\$ 101,561	\$ 4,406
Social Services	240,394	240,494	(100)
Administration	10,510	10,260	250
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 356,871</u>	<u>\$ 352,315</u>	<u>\$ 4,556</u>

BATH COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	DEBT SERVICE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 93,850	\$ 42,850	\$ 51,000
Total Operating Budget - Debt Service Fund Type	\$ 93,850	\$ 42,850	\$ 51,000
Other Financing Uses:			
Bonds-			
Principal	25,000	25,000	
Interest	10,250	5,125	5,125
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 129,100	\$ 72,975	\$ 56,125

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Walter B. ShROUT, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Bath County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

Reference 2003 - 1

- The Fiscal Court Should Adopt A Written Investment Policy

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bath County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Reference 2003 - 2

- Lacks Adequate Segregation Of Duties

Reference 2003 - 3

- The County Should Implement Required Purchasing Procedures

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 28, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Walter B. ShROUT, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bath County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Bath County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bath County's management. Our responsibility is to express an opinion on Bath County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bath County's compliance with those requirements.

In our opinion, Bath County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs.

Reference 2003-4

- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Bath County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bath County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 28, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Bath County.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. None of the conditions are reported as a material weakness.
3. One instance of noncompliance material to the financial statements of Bath County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bath County expresses an unqualified opinion.
6. There was one audit finding relative to the major federal awards programs for Bath County reported in Part C of this schedule.
7. The program tested as a major program was: Disaster and Emergency Assistance Grant, CFDA #83.544.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bath County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES:

Reference Number 2003-1

The Fiscal Court Should Adopt A Written Investment Policy

The fiscal court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive Walter B. Shrout's Response:

None provided.

BATH COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS:

Reference Number 2003-2

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. Furthermore, the Treasurer has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the following compensating controls be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.

County Judge/Executive Walter B. Shrout's Response:

None provided.

Reference Number 2003-3

The County Should Implement Required Purchasing Procedures

The county does not have purchasing procedures in place to meet the requirements of the State Local Finance Officer. The road fund is the only fund that uses a purchase order system. The following procedures need to be implemented for all funds to meet the requirements as prescribed by the State Local Finance Officer:

- Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a Department Head.
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary appropriation transfers have been made.
- Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive (or designee) who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

County Judge/Executive Walter B. Shrout's Response:

None provided.

BATH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference Number 2003-4

The Fiscal Court Should Prepare A Schedule Of Federal Expenditures Of Federal Awards

OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organization, section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule shall include:

- List individual Federal programs by Federal Agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For Example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

We recommend compliance with this requirement.

County Judge/Executive Walter B. Shrout's Response:

None provided.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BATH COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department For Local Government:		
Community Development Block Grant		
Scattered Site Homebuyer Project (CFDA #14.228)	Not Provided	\$ 240,394
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
2001 Severe Storms Flooding (CFDA #83.544)	FEMA-1388-DR	492,091
2002 Severe Storms Flooding (CFDA #83.544)	FEMA-1407-DR	4,942
2003 Winter Storm (CFDA #83.544)	FEMA-1454-DR	<u>11,423</u>
Total Cash Expenditures of Federal Awards		<u>\$ 748,850</u>

BATH COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bath County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

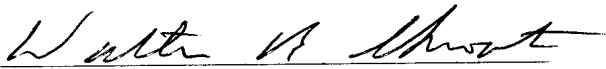
BATH COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BATH COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Bath County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Walter B. ShROUT
Bath County Judge/Executive



Douglas Copher
Former Bath County Treasurer

